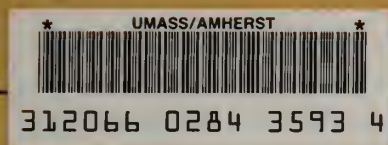


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Homeownership Opportunity Program

**Guidelines for Communities
& Developers**

AN INITIATIVE OF THE MASSACHUSETTS HOUSING PARTNERSHIP

MICHAEL S. DUKAKIS, GOVERNOR

MASSACHUSETTS HOUSING PARTNERSHIP

Homeownership Opportunity Program Guidelines

I. Introduction

In early 1985 Governor Dukakis announced the formation of the Massachusetts Housing Partnership (MHP), a public/private effort to meet the Commonwealth's housing needs and broaden local opportunities for affordable housing. Over the past year, the Partnership has developed concrete goals and several new programmatic initiatives, has marshalled existing resources, and has secured new sources of funding for these initiatives.

On January 15th of this year, Governor Dukakis announced the state's new \$225 million MHP Homeownership Opportunity Program as one of the Partnership's first initiatives. The Homeownership Opportunity Program will enable moderate-income individuals and families to purchase their first home. \$225 million will be available through this Program to be used to finance the construction of 2,500 new housing units over a two year period. These resources are being provided to cities and towns to work with private developers to produce new, affordable housing.

The goal of the Homeownership Opportunity Program is to involve communities in devising ways to encourage the development of new homeownership opportunities. The housing created by this program will be affordable to families and individuals that have been priced out of the homebuying market by the recent sharp increases in Massachusetts home prices.

Almost a hundred communities have already expressed interest in participating in the Program by responding to a letter from the MHP sent on January 23rd. These communities, and all other interested cities and towns, are now invited to apply formally for this Program.

These guidelines will describe more fully how the Homeownership Opportunity Program will work. A city or town can indicate its continuing interest in this program by completing the Application to be a Homeownership Partnership Community and returning this information to the MHP; then the community will be designated a Homeownership Partnership Community. Also, if a city or town has identified a site at this time for a possible homeownership project, then it should indicate so by completing the information in the Project Application. Although a Partnership Application or Project Application can be accepted at any time for this Program, Applications to be a Homeownership Partnership Community will be reviewed beginning April 18, 1986 and Project Applications will be reviewed beginning



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May 9, 1986. Partnership Applications and Project Applications received prior to these dates will be reviewed first.

II. MHP Homeownership Opportunity Program Description - Summary

The homes that will be built through this initiative will be for first time homebuyers. Units can be created using new construction, rehabilitation of abandoned structures, or conversion of non-housing structures. Communities will offer incentives for the development of these homes that will facilitate development and reduce development costs.

A quarter of the housing units will be priced so that they are affordable to moderate income households. For the Greater Boston area, this target income group will have incomes between \$18,000 and \$27,000. Thus, the housing units will cost at most, \$86,000.

For the balance of the state, this income group will have incomes between \$17,000 and \$25,000. Thus, housing units for these households will cost a maximum of \$78,500.

Prices on the homes can be skewed in order to produce these more affordable units. In other words, the prices of three-quarters of the units can be greater and some of the profit realized from these utilized to allow the remaining 25% of the units to achieve this affordability.

In order to assist in the development of this housing, the MHP has assembled resources to reduce the cost of the housing produced to the new homeowner. These resources include \$200 million in below-market interest rate mortgages from the Massachusetts Housing Finance Agency, (MHFA). The Massachusetts Housing Partnership Fund, a fund created by the Massachusetts Legislature for the MHP, will make \$20 million available to reduce the financing costs to the homebuyer for some of the housing produced. Also, up to \$5 million in Community Development Action Grant (CDAG) funds will be provided to construct sewers and roads and other infrastructure associated with the housing development.

A community selected to participate in the Homeownership Opportunity Program will work with the MHP to determine which resources will be used with their homeownership development project(s). Projects included under this Program can be developed in conjunction with non-profit or for-profit developers.

The affordability of these units will be preserved over the long term by deed restrictions. Thus, a community can be assured that this housing will always be available at less than market prices for eligible buyers.

Finally, in order to make funds for the development of housing available over the long term to produce more affordable housing, the MHP funds that are initially invested in the project will be recaptured at sale. This objective will be achieved by channelling a portion of the appreciation of the house back to the MHP Fund.

Each of these program elements will be described in more detail below.

III. Types of Housing to be Created

The homes built through this initiative will be for homeownership. Structures can be single dwelling units, either attached or detached, and can include condominiums. They can be newly constructed or can be created through the substantial rehabilitation of a vacant structure. Given the goals of the Program, it is clearly more desirable to reduce costs by clustering the housing units on a site, rather than placing them on individual large lots.

At least a quarter of the housing units, the Affordable Homes, will be priced significantly below market levels: i.e. \$86,000 and below for the Greater Boston area and \$78,500 and below for the balance of the state, including southeastern, northeastern, central and western Massachusetts.

TABLE I

Income Limits and Target Purchase Prices
for these Affordable Homes *

(*A minimum of 25% of the housing units created)

	Income Limit of Buyers	Income Ranges	Mortgage Interest Rate	Home Purchase Price Limits
Greater Boston Area	\$27,000	\$18,000- 27,000	5½%	\$86,000
Balance State	\$25,000	17,000- 25,000	5½%	\$78,500

**Mortgage interest rates included in this table are based on an 8½% tax exempt interest rate, which may fluctuate, necessitating some adjustment in this lower rate.

The other 75% of the housing units created through this program do not have pre-established purchase price limits. If MHFA mortgages are to be provided for homebuyers of these units, then the houses must be priced \$110,000 or less (except in the Attleboro PMSA, where the houses must be priced \$86,000 or less). Also, eligible homebuyers must have incomes less than \$35,000 for a household of one, \$40,000 for a household of two. (\$1500 can be added for each additional dependent in households of more than two persons.) Please note: These MHFA income and purchase price limits are consistent with current federal regulations and are subject to change.

The pricing on these homes can be structured in a number of different ways in order to reach a range of income groups. Two examples of possible pricing structures follow.

Example #1: Many communities will be looking to create 100% affordable housing through this program. All units in a project would then be sold for below market prices, although the 25% Affordable Homes would probably be priced below the other 75%.

The housing created would be affordable to a range of income groups, all of them households who would not otherwise be able to afford to purchase a home. Also, as long as the purchase prices of these units fall below MHFA purchase price limits and the homebuyers have incomes within MHFA income limits, (see Table II) then MHFA below market interest rate mortgages can be provided to all units in the project. Below market interest rates are approximately two percentage points below prevailing, conventional mortgage rates.

Example #2: It will also be possible to skew purchase prices on the houses created through this program. Three quarters of the housing units constructed may be priced and sold at market value if this degree of skewing is needed to produce the required lower priced, Affordable Homes. In most cases, these homes sold at market value would be financed with conventional mortgage loans.

Communities can set up pricing schemes that differ from the models described above, as long as at least 25% of the units are priced as Affordable Homes.

IV. Households to be Served

At least a quarter of the units will be priced so that they are affordable to moderate income households, those households with incomes approximately equal to or less than 80% of the median. For the Greater Boston area, this target income group will have incomes equal to or less than \$27,000 and ideally within the range of \$18,000 to \$27,000. For the balance of the state, this target income group will have incomes equal to or less than \$25,000 and ideally within the range of \$17,000 to \$25,000.

Households purchasing an Affordable Home constructed through this program and households who use an MHFA mortgage to purchase are of these homes must be first-time homebuyers. Non-first-time homebuyers are eligible to purchase any home other than 25% Affordable Homes created through this program in Boston, Chelsea, Everett, Fall River, Lawrence, Lynn, North Adams or Somerville.

V. Interest Rate Reduction

A reduced interest rate will be available for these moderate income households. This interest rate will be up to three percentage points below an already low below-market interest rate. Under current market conditions this will mean that a tax-exempt $8\frac{1}{2}\%$ interest rate will be reduced to $5\frac{1}{2}\%$. Funds for this interest rate buy-down will come from the \$20 million in MHP Funds.

The mortgage will be structured with slowly graduating payments. The interest rate will start out at $5\frac{1}{2}\%$ and then would increase by small increments, a percentage point every three years, until it is at $8\frac{1}{2}\%$. The interest rate will remain at $8\frac{1}{2}\%$ from the beginning of the tenth year for the remainder of the mortgage term or until the home is sold.

Example: For a house priced at \$80,000, 5% down, with a mortgage amount of \$76,000. During the first nine years the monthly mortgage payment paid by the borrower will increase every three years. In the first three years of this mortgage, a borrower would pay \$432 a month for principal and interest. In years four through six, this payment would increase by only 11% to \$481 a month and in years seven through nine, this payment would increase by only 11% to \$532 a month, until finally levelling out in year ten to \$585. This amount would be paid monthly until the end of the mortgage term.

VI. Creating Affordability for these Homes

Development costs for these homes will be reduced, in part, by communities facilitating development and contributing resources. In general, these measures can reduce development costs by five to thirty percent. The following measures are suggestions that a community should consider implementing. If a community devises other ways to facilitate development and reduce development costs, then these can be used as well.

- A. At a minimum a community should support the development of affordable housing through this program and should support each project as it moves through the permit process. By supporting these projects, local leaders can ensure predictable outcomes and quick, administrative approval. These actions alone will help to reduce development costs for this housing.

A community could also consider waiving local fees for affordable housing development.

- B. Without expending local resources, a community can reduce development costs per unit considerably by allowing increased density on a site. Most communities will allow for increased density by granting a special permit or a variance for a project.

A community could also enact an inclusionary zoning ordinance, which would allow for increased density in cases in which a developer is willing to provide some affordable housing units.

In addition to these measures a community could allow cluster zoning and zero lot-line zoning.

- C. The donation of locally-owned or locally-controlled sites will also reduce the costs of housing development. Given the high cost of land in Massachusetts, donation of a site could reduce the price of these homes by a substantial amount, \$5,000 to \$20,000 per unit.
- D. Finally, if local funds (for example, Community Development Block Grant (CDBG) funds) are available, they can also be used to reduce the cost of this housing. Community contributions of staff time will also help to reduce costs.

VII. Resources Assembled to Provide Financing

In providing funding for specific projects the MHP will draw on the following program and agency commitments:

- A. Up to \$200 million in below-market interest rate financing from the MHFA. This money will be available in the form of lower interest rate mortgages to first-time homebuyers of the housing created.
- B. Up to \$20 million from the MHP Fund. The funds will be used to "buy down", or reduce, the interest rate of the MHFA below-market interest rate loan for the homebuyer. The interest rate will be reduced by approximately 3% from the prevailing tax-exempt interest rate. (The tax-exempt interest rate is usually two points below the prevailing mortgage rate.) The effect of the infusion of these funds will be to reduce even further the cost of the housing produced under this Program to the borrower. These funds are available to moderate income purchasers of the Affordable Homes produced through this program.
- C. Up to \$5 million in Community Development Action Grant (CDAG) monies to construct sewers or roads and other publicly owned infrastructure to be built along with the housing developed.

The use of CDAG funds in conjunction with a housing development project must also help reduce the prices of the housing produced. CDAG funds that are available for the Homeownership Opportunity Program are very limited. A maximum of \$7,000 in CDAG funds per unit can be requested for any one housing development project.

- D. In addition to these resources, there may also be funds available to reduce total development costs per unit on a project.

VIII. Long Term Affordability

Many of the houses created through this program will be sold for 5% to 30% below the houses' actual appraised value. The initial ratio of the sales price to appraised value will be maintained in all subsequent sales and will be preserved by deed restriction, thus ensuring the long term affordability of these units.

These houses will be resold only to income eligible buyers. When resold, the houses will be made available through a pre-determined, locally-controlled process.

Example: A home valued at \$100,000, will be built and sold for a lot less under this program. Assuming this \$100,000 home sold for 30% below its appraised value, or \$70,000, then this 30% differential between appraised value and sales price would be preserved by deed restriction. So, if in five years the appraised value of this house is \$127,628, then its maximum sales price would be \$89,340, or 30% less than its appraised value.

One of the chief benefits of this method of limiting appreciation on a home is that it ensures that a unit that has been created as an affordable housing unit will remain affordable in perpetuity or for as long as the deed restriction is to last. It will, therefore, not be necessary for a community to replace these units.

IX. Recycling of the MHP Fund

The funds used to reduce the interest rate on the affordable homes built through this program will be repaid to the MHP Fund at the time the house is sold. These funds will then be recycled to produce additional units of affordable housing. Sellers will be allowed to retain 80% of the appreciation on their houses; 20% of the appreciation will be recycled to the MHFA Fund.

Example: A house built under the program originally is sold for \$70,000. With an average rate of appreciation of 5% a year, at the end of five years, the allowable sales price of the house will have increased to \$89,340. The allowable appreciation on this property after five years would be \$19,340 (\$89,340 - \$70,000). The seller would be allowed to retain 80% of this appreciation (\$15,472); 20% of this appreciation (\$3,868) would be repaid to the MHP Fund. These funds would then be used by the MHP to create other units of affordable housing.

X. Community Competition for Developers

Cities and towns will want to establish a competitive process to select a developer. This process will differ depending on whether the community is proposing development on a publicly owned or controlled site or is soliciting proposals from developers with their own site(s). At a minimum, in either case, the community should advertise that homeownership proposals are being sought from developers and should make public the basic process and criteria that will be used to select a developer.

XI. Buyer Selection Guidelines

Selection of home buyers will follow Resident Selection Guidelines prepared by the MHP for use with this program. Communities can establish local preference as long as this preference is within the context of an affirmative fair marketing program.

XII. How to Apply

Any city or town interested in the construction of new housing or the substantial rehabilitation of existing residential or non-residential structures can apply for the funding provided through this Program.

Communities that are interested in the MHP Homeownership Opportunity Program can indicate this interest in one of two ways. If a community is just at the initial stages of considering a homeownership project and the project is just at the conceptual stage, then the community should report on its planning direction for the project by submitting, to the MHP, the attached response form, Application to be a Homeownership Partnership Community. Once this response form has been reviewed and approved by the MHP, then the community that submitted it will be declared a Homeownership Partnership Community. As the project evolves, the community will submit the more detailed project information outlined in the Project Application.

Communities that have identified a homeownership project that is site specific can and should submit more information. Both the Application to be a Homeownership Partnership Community and the Project Application should be submitted.

Although it is not expected that all of the information requested in the Application will be submitted initially, the community should submit as much information as it has available.

Even after the Project Application has been submitted, as further descriptive information becomes available, it should be sent to the MHP. A preliminary commitment of funds can be made once the Application has been reviewed and approved by the Partnership.

A Project will not receive a final funding commitment until all of the information requested in the Partnership Application and the Project Application has been submitted to the MHP and the project is within 30 days of beginning construction.

All correspondence for the MHP Homeownership Opportunity Program should be sent to:

MHP Homeownership Opportunity Program
Massachusetts Housing Partnership - Room 1404
100 Cambridge Street
Boston, MA 02202

Review of all Partnership Applications will begin on April 18, 1986. Partnership Applications can be submitted prior to this date and will be reviewed and responded to as quickly as possible. Partnership Applications will also be accepted after this date (and will be accepted on an ongoing basis), however, those submitted prior to this date will be reviewed first.

Review of all Project Applications will begin on May 9, 1986. Project Applications can be submitted prior to this date and will be reviewed and responded to as quickly as possible. Although Project Applications will be accepted after this date (and will be accepted on an ongoing basis), those submitted prior to this date will be reviewed first.

All material submitted to MHP will be responded to within 30 days. Within that time frame, and usually sooner, communities will receive a response back from the Partnership as to the appropriateness of the development proposed for funding by the Homeownership Opportunity Program. Those Project Applications which include a request for CDAG funds will be reviewed within 90 days.

Examples of homeownership projects similar to those being financed and constructed through this program follow the Partnership and Project Applications as Attachment II.

All questions regarding this program should be directed to MHP staff at (617) 727-7824.

MHP Homeownership Opportunity Program

Application to be a Homeownership Partnership Community

1. Please provide a description of your local housing need and describe how a homeownership project will help meet this housing need.
- 2a. Describe the ways of implementing this program that have been discussed at the local level. For example, is there land and/or buildings, publicly or privately owned, that have been identified as possible Homeownership Opportunity Program sites? If so, please provide a general description of the size and configuration of these sites.

For each one, describe the type of housing being considered for each and the number of units that could be built on each.

- 2b. For the parcels identified above, are there any obstacles to their development? For example, will rezoning or special permits be required to develop housing on these sites?

3. Who is involved in putting the project together in your community? Is there a local housing partnership involved? If so, who is participating?

4. Who will be the lead contact agency or person for your community? What is this agency's or person's involvement in the overall planning process?

Lead Contact Agency: _____

Lead Contact Person: _____

Title: _____

Address: _____

City, Zip: _____

Phone: _____

MHP Homeownership Opportunity Program

Project Application

I. Description of project and/or project sites.

- A. What site(s) are you proposing for the development of homeownership opportunities in your community? Are these sites city or town owned? If not, how were they selected? What is the status of site control for these sites? (i.e. owned, under purchase and sale, under option)
- B. How large are these sites? (How many square feet, acres?) Please submit a map showing site location and, as soon as is available, a plot plan of the parcel. Are there any physical/environmental constraints to the development of these sites? (e.g. wetlands, ledge, etc.)
- C. What utilities exist on the site? Will it be necessary to bring utilities to the site? If so, from where?

Submitted By: _____

Title /Affiliation: _____

Address: _____

City, Zip: _____

Phone: _____
(if different agency and person identified in #4, above)

Signed _____
Local Chief Executive

Mail to: MHP Homeownership Opportunity Program,
Massachusetts Housing Partnership
100 Cambridge Street - Room 1404
Boston, MA 02202

MHP Homeownership Opportunity Program

Project Application

I. Description of project and/or project sites.

- A. What site(s) are you proposing for the development of homeownership opportunities in your community? Are these sites city or town owned? If not, how were they selected? What is the status of site control for these sites? (i.e. owned, under purchase and sale, under option)
- B. How large are these sites? (How many square feet, acres?) Please submit a map showing site location and, as soon as is available, a plot plan of the parcel. Are there any physical/environmental constraints to the development of these sites? (e.g. wetlands, ledge, etc.)
- C. What utilities exist on the site? Will it be necessary to bring utilities to the site? If so, from where?

- D. How many units will be constructed on the site? Where will the units be located? As soon as available, please submit a site plan having the foot print of the housing units to be built on the site.

- E. What types of units will be built on the site?

<u>Bedroom size</u>	<u>No. of Units</u>	<u>Square Footage</u>
0		
1		
2		
3		
4		
<u>Total</u>	<u> </u>	<u> </u>

- F. What are total development costs expected to be? The pro forma included as Attachment I to this Application should be completed and submitted.

G. What will the impact of this homeownership project be on the surrounding neighborhood? Are there any community groups opposed to the project? If so, what steps have been taken to address their concerns? What groups in the neighborhood (or outside of the neighborhood) support the project?

H. Will other types of housing be developed in association with this homeownership project? If so, what type of housing will be developed? (SHARP or TELLER rental housing, public housing units or market priced housing.)

- I. What will housing per unit prices be? What will the 25% affordable units cost? What will the 75% slightly below market or market priced units cost?

Bedroom Size of <u>Unit</u>	<u>Housing prices per unit</u>	
	<u>25% - Below Market Units</u>	<u>75% - Market or Slightly Below</u>
0		
1		
2		
3		
4		

- J. Please indicate whether you will be seeking a Community Development Action Grant (CDAG) to construct publicly owned infrastructure on the site. If so, please indicate the probable amount of your CDAG funding request and what the funds will be used for. Please indicate what your CDAG request per unit will be.

\$ _____ CDAG funds per unit

IV. Project Status

Please indicate the present status of your development project. Have any approvals or permits been secured to date? What approvals and permits are still pending? (It is not assumed that any approval or permits have been secured. This information need only be given for a project that has been under consideration for some time.

ATTACHMENT I
Development Pro forma

Project name _____

Number of units _____

Total Costs

Per Unit

Hard Costs

Land	_____	_____
Site Preparation	_____	_____
Construction Costs	_____	_____
Paving & Landscaping	_____	_____
Subtotal	_____	_____

Soft Costs

Permits	_____	_____
Site Engineering & Designer	_____	_____
Legal	_____	_____
Construction Manager	_____	_____
Marketing/Security	_____	_____
Interest during Construction	_____	_____
Insurance & Misc. Fees	_____	_____
Subtotal	_____	_____

Contingency	_____	_____
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Total Development Cost	_____	_____
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ATTACHMENT II

MHP HOMEOWNERSHIP OPPORTUNITY PROGRAM EXAMPLES

(1) A community in western Massachusetts has already begun planning for an MHP Homeownership Opportunity Project. A local developer is interested in building up to 50 single family homes for first time homebuyers and 100 town house units that will be either all rental or a mixture of rental and homeownership. This local developer has formed a partnership with a local non-profit organization and has the support of the area's state representative. Local town officials, the head of the Selectmen, the chairs of the Zoning Board and the Planning Board and the head of the Conservation Commission have all been informed of the project and are supportive of it.

The single family homes to be built on the 125 acre site are projected to cost around \$85,000 and prices may be skewed above and below this target price. The homes will be sold to first-time homebuyers. If rental apartments are created in the townhouses on the site they will be available at moderate rents. Condominiums units created will sell for around \$40,000.

(2) A city in eastern Massachusetts has also begun planning for an MHP Homeownership Opportunity Program project. It is planning to set aside seven city-owned sites to be developed for housing, publish a Request for Proposals and accept development proposals for these sites. One of the sites will be set aside for family public housing, and another developed as a housing cooperative. Community Development Block Grant funds and local funds will be set aside for some of the housing units developed to reduce purchase prices even more. Developers will be asked to skew the purchase prices on some of the housing units as well. A total of 35 percent of the units created would be for low income families and individuals.

(3) The Fall River Corky Row project, developed by the community-based Citizens for Citizens, is a supreme example of a local partnership combining resources to produce affordable housing. The project consists of 39 units of attached townhouses on four development sites in one neighborhood of the city. Two, three and four bedroom homes will be created and sold to low and moderate income households. Vacant lots for the project were purchased from private parties. To finance construction on the lots a \$7,500 technical assistance grant and a \$40,000 front end loan from CEDAC were obtained to finance the legal costs of completing the real estate transaction and to initiate design development and cost estimation for the housing. A \$425,000 federal Urban Development Action Grant (UDAG) was obtained by the non-profit developer and the City of Fall River to write down the sales prices of the new units. MHFA mortgages were made available to buyers of the units, guaranteeing lower monthly mortgage payments. A family of four earning between \$30,000 and \$42,000 could qualify to purchase a Corky Row home.

